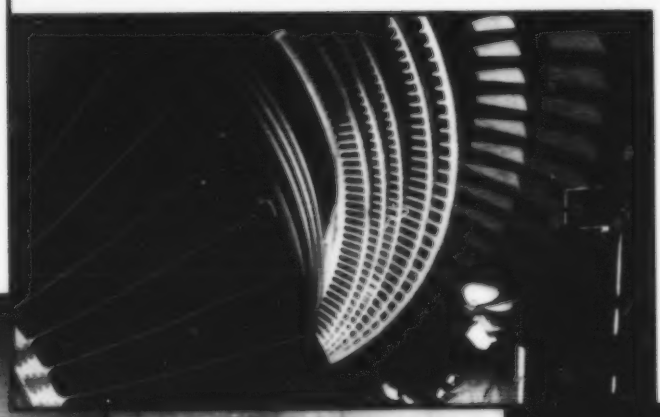
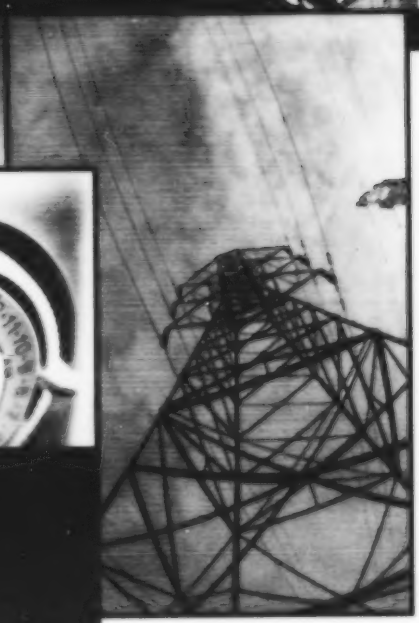
Sessional Paper No. 163
1st Session 39th Parliament
Tabled JUN 4 - 2008
Tabling Clerk: mfz
COPY

OPA

Ontario Power Authority





2007 Annual Report

Progress Toward Our Electricity Future

Introduction

The Ontario Power Authority (OPA) is responsible for ensuring a reliable, sustainable supply of electricity for Ontario. Its four key areas of focus are: planning the power system for the long term, leading and coordinating conservation initiatives, ensuring development of needed generation resources and supporting the continued evolution of the electricity sector.

The OPA was established by the *Electricity Restructuring Act, 2004* (amending the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*). It is governed by an independent Board of Directors and reports to the Ontario Legislative Assembly through the Minister of Energy. The OPA is licensed and regulated by the Ontario Energy Board.

Some of the OPA's staff, August 2007

2007 Highlights

- Completed and submitted to the Ontario Energy Board the Integrated Power System Plan — a 20-year plan to ensure the long-term reliability and sustainability of Ontario's electricity system.
- Launched 16 conservation programs for all types of electricity customers: residential, commercial, institutional, industrial and agricultural.
- Worked with 77 local distribution companies for the delivery of province-wide conservation programs, which reached 99 percent of Ontarians.
- Surpassed the milestone of 10,000 megawatts of new electricity supply under contract.
- Executed 241 contracts for small-scale distributed renewable energy projects under the new Renewable Energy Standard Offer Program. These projects have the potential to contribute more than 915 megawatts of electricity from wind, solar, hydro and biomass sources to Ontario's supply.
- Facilitated the first exchange trading of Ontario electricity forward contracts.

OPA
Ontario Power Authority

120 Adelaide Street West
Suite 1600
Toronto, Ontario M5H 1T1

T 416-967-7474
F 416-967-1947
www.powerauthority.on.ca

March 31, 2008

The Honourable Gerry Phillips
Minister of Energy
900 Bay Street, 4th Floor
Toronto, ON
M7A 2E1

Dear Minister:

I am pleased to submit the Ontario Power Authority's 2007 annual report. The report provides an overview of the OPA's activities and accomplishments during the fiscal year ended December 31, 2007, and includes the audited financial statements.

Respectfully submitted,

John M. Beck
Chair

Table of Contents

Message from the Chair and the CEO 3

2007 in Review 6

Management's Discussion and Analysis 18

Auditors' Report 28

2007 Financial Statements

- Statement of Financial Position 29
- Statement of Operations 30
- Statement of Cash Flows 31
- Statement of Changes in Net Assets 32
- Notes to Financial Statements 33

Corporate Information 41

Message from the Chair and the CEO

We are pleased to report that significant progress was made in 2007 toward ensuring the reliability and sustainability of Ontario's electricity system. In all four areas of the Ontario Power Authority's (OPA's) mandate, successful initiatives were launched and milestones were achieved that have moved Ontario closer to this critical goal.

John M. Beck
Chair

Jan Carr
Chief Executive Officer

In August, after more than a year of research, planning and consultations with stakeholders, the OPA completed work on the Integrated Power System Plan (IPSP) and submitted it to the Ontario Energy Board (OEB) for approval. The IPSP is a blueprint for the development of conservation, supply and transmission to secure Ontario's electricity supply for the next 20 years. It is the first long-term power system plan for the province in more than a decade.

Also in 2007, the OPA launched a portfolio of 16 conservation programs covering every sector of the electricity market, up from 10 programs launched in 2006. Three of these programs were delivered province-wide by 77 local distribution companies under contract with the OPA. These programs reached 99 percent of the population and not only helped Ontarians achieve significant savings through conservation but also raised their awareness of both the need for electricity conservation and how they can contribute. Market research in 2007 indicated that consumers are increasingly aware of the OPA's programs and support them. The OPA also researched and developed a new evaluation, measurement and verification system to better assess the results of conservation programs and contribute to the design of future programs.

Another milestone was reached in August when the OPA surpassed the 10,000-megawatt mark for new electricity supply under contract. This included the implementation of the Renewable Energy Standard Offer Program, which resulted in the signing of 241 contracts for small-scale renewable energy projects that have the potential to contribute more than 915 megawatts of electricity.

We have also seen progress in our efforts to develop a commercial marketplace for Ontario electricity. Early in 2007, Natural Gas Exchange Inc. (NGX) began continuous trading of Ontario electricity contracts, a development that will help to establish a forward price curve for electricity. This will contribute to greater stability, predictability and transparency of pricing for Ontario's electricity consumers.

These achievements represent encouraging steps toward Ontario's goal of securing a reliable, long-term supply of electricity, but there are many major challenges ahead. Accordingly, our work in 2008 will focus on the necessary next steps in the four areas of our mandate: supporting the IPSP through the regulatory hearings, stepping up our conservation efforts toward achieving the 2010 target of 1,350 megawatts in peak electricity savings, continuing to improve supply reliability and helping to move the electricity sector forward for the benefit of consumers.

Message from the Chair and the CEO continued

As the OEB undertakes the regulatory review of the IPSP, which could take approximately a year to complete, a major priority for the OPA in 2008 will be to support this review as the proponent. This will include providing legal representation and expert witness testimony at public hearings, responding to information requests from stakeholders participating in the proceedings, and managing the payment of cost awards to some of the participating stakeholders.

While the approval of the IPSP will mark the start of a major challenge in implementing the various projects identified in the plan, in effect, the activities involved are a continuation of work already underway on the many pre-IPSP projects that the OPA has been involved in carrying out. This work entails obtaining timely approvals of the individual projects, as well as developing the extensive resources—such as capital investment and skilled personnel—required to achieve this challenging undertaking. The OPA will also be active in 2008 in promoting the streamlining of project approval processes in Ontario and helping to develop a commercial marketplace that will encourage investment in the province's electricity infrastructure.

More than half of the OPA's 2008 budget is dedicated to our conservation initiatives, reflecting the major effort planned toward achieving the 2010 target of an additional 1,350 megawatts of savings in peak demand.

The OPA's strategy to help achieve the province's conservation targets is detailed in the IPSP. The portfolio of conservation initiatives will expand in 2008 with the launch of an additional 10 programs, resulting in a total of 26 active conservation programs by year end. Another key undertaking in 2008 will be an increased effort to coordinate the work of all organizations engaged in conservation activities across the province to maximize the effectiveness and impact of these efforts and eliminate any duplication or overlap. New and continuing education and awareness efforts will also be undertaken to foster the development of the conservation marketplace, which includes organizations that deliver conservation and consumers that need to conserve electricity. In addition, we will begin to report the results of OPA programs using the new evaluation, measurement and verification system that was developed in 2007.

Procurement of new electricity generation will also be a major focus in 2008. The OPA will be seeking an additional 500 megawatts of combined heat and power projects and another 500 megawatts of large-scale renewable energy projects. As well as developing these new sources of electricity supply, we will continue to develop new supply through the highly successful Renewable Energy Standard Offer Program and the new Clean Energy Standard Offer Program.

These achievements represent encouraging steps toward Ontario's goal of securing a reliable, long-term supply of electricity, but there are many major challenges ahead.

Also in 2008, the OPA will continue to develop and facilitate the implementation of solutions for areas of the province that are facing urgent supply constraints, such as northern York Region. Engagement with stakeholders on these and other issues will remain a priority in 2008.

Another major initiative during the year will be to develop a long-term plan to continue engaging First Nations and Métis communities in OPA initiatives such as the development of renewable energy supply. The engagement plan will be developed in consultation with these communities.

In conclusion, the path for 2008 and beyond promises to be both exciting and challenging. Ontario is seeing tangible results in the effort to ensure a reliable and sustainable electricity system, and we are pleased to have made a contribution to that success. In 2008 and beyond, the OPA will remain committed to delivering on our mandate in ways that best serve the interests of Ontario's electricity consumers.

John M. Beck,
Chair

Jan Carr,
Chief Executive Officer

Vision

A sustainable, competitive and reliable electricity system for the benefit of Ontario consumers.

Mission

The Ontario Power Authority contributes to the development of a reliable and sustainable electricity system for the benefit of Ontario customers. In doing so, we plan for the long term and procure and coordinate conservation and electricity supply from diverse resources.

Mandate

The Ontario Power Authority's mandate is determined by the provincial government and is embodied in legislation and regulation.

Guiding Principle

The Ontario Power Authority will balance the short-term and long-term needs of electricity users while developing a reliable and sustainable electricity system for their benefit.

2008 Strategic Objectives

The Ontario Power Authority's 2008 business plan is based on four key areas: integrated planning, conservation, electricity resources and sector development. These four key directions are addressed by the following five strategic objectives:

1) Plan for an adequate, reliable and sustainable system that integrates conservation, generation and transmission.

2) Contribute to the achievement of Ontario's conservation resource targets and to fostering a culture of conservation using market-based approaches.

3) Consistent with the Integrated Power System Plan, ensure that the Province of Ontario has diverse electricity generation resources.

4) Define sector development goals and facilitate the efficient allocation of risk between customers and investors in conservation and generation.

5) Maintain and develop organizational capacity to achieve the strategic objectives.

Also in 2008, the OPA will continue to develop and facilitate the implementation of solutions for areas of the province that are facing urgent supply constraints, such as northern York Region. Engagement with stakeholders on these and other issues will remain a priority in 2008.

Another major initiative during the year will be to develop a long-term plan to continue engaging First Nations and Metis communities in OPA initiatives such as the development of renewable energy supply. The engagement plan will be developed in consultation with these communities.

In conclusion, the path for 2008 and beyond promises to be both exciting and challenging. Ontario is seeing tangible results in the effort to ensure a reliable and sustainable electricity system, and we are pleased to have made a contribution to that success. In 2008 and beyond, the OPA will remain committed to delivering on our mandate in ways that best serve the interests of Ontario's electricity consumers.

John M. Beck,
Chair

Jan Carr,
Chief Executive Officer

Vision

A sustainable, competitive and reliable electricity system for the benefit of Ontario consumers.

Mission

The Ontario Power Authority contributes to the development of a reliable and sustainable electricity system for the benefit of Ontario customers. In doing so, we plan for the long term and procure and coordinate conservation and electricity supply from diverse resources.

Mandate

The Ontario Power Authority's mandate is determined by the provincial government and is embodied in legislation and regulation.

Guiding Principle

The Ontario Power Authority will balance the short-term and long-term needs of customers to serve them while developing a reliable and sustainable electricity system for their benefit.

2008 Strategic Objectives

The Ontario Power Authority's 2008 business plan is based on four key areas: integrated planning, conservation, electricity resources and stakeholder engagement. These four key objectives are elaborated in the following pages:

1) Plan for the province's electricity requirements across the integrated areas of conservation, generation and transmission.

2) Conserve electricity by achieving the province's conservation targets and helping customers use electricity more efficiently.

3) Procure electricity resources to meet Ontario's needs over the short and long term.

4) Engage stakeholders in the province's electricity sector.

2007 in Review

Integrated Power System Plan for Ontario filed with OEB

August 2007 marked a significant development for the province's electricity system when the Ontario Power Authority (OPA) completed and filed the Integrated Power System Plan (IPSP) with the Ontario Energy Board (OEB).

The IPSP is an action plan with a 20-year perspective that will ensure a reliable, adequate and sustainable electricity system for the province. The plan, which will be updated every three years, recommends specific actions for the near term, identifies options for the medium term, and explores opportunities for the long term. The capital cost of the planned infrastructure is $10 billion for conservation, $46 billion for generation and $4 billion for transmission, for a total of $60 billion to be invested in the province's electricity system over the next 20 years.

The plan envisions four major outcomes:

- Conservation will reduce growth in demand by 75 percent.
- Coal will be replaced in Ontario's electricity supply mix by conservation, renewable energy and natural gas-powered generation.
- Nuclear generation will be restored to its historic level through a combination of refurbishment of some existing nuclear plants and the construction of new nuclear facilities.

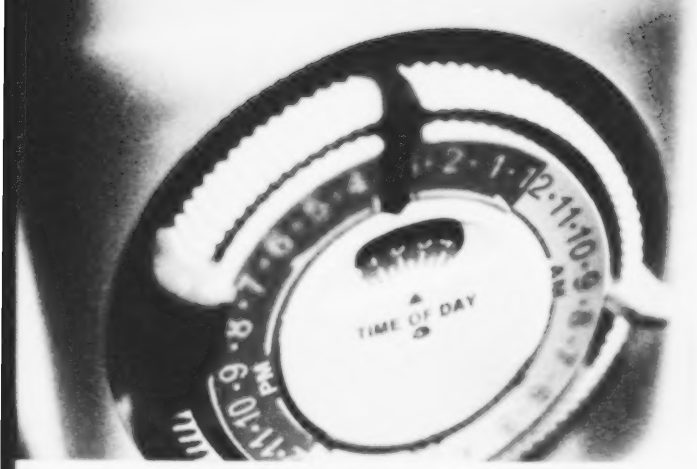
Claire Willison coordinates projects for the OPA's communications department.

- Transmission will be reinforced to ensure service reliability and to connect renewable energy—much of which is located in remote areas of the province—to regions where there is high demand.

In January 2008, the OEB started the first phase of reviewing the plan in a public hearing process. Its role is to ensure that the IPSP complies with government policy and is economically prudent and cost-effective.

While the IPSP is moving through the approval process, some areas of the province have electricity supply constraints so critical that they require immediate solutions. In 2007, the OPA undertook initiatives to develop appropriate supply solutions in southern Georgian Bay, Woodstock and the western Greater Toronto Area (GTA). Other activities included planning as well as support of Hydro One's application to the OEB for a 500-kilovolt transmission line from the Bruce nuclear generating station to the Milton station in the western GTA.

The IPSP is an action plan with a 20-year perspective that will ensure a reliable, adequate and sustainable electricity system for the province.



John Beck, OPA Chair; Paul Godfrey, President and CEO of the Toronto Blue Jays and Rogers Centre; and Jan Carr, OPA CEO, on "Extending Electricity Conservation Awareness Day" at the July 22, 2007 Blue Jays game in Toronto.

Long-Term Conservation Strategy

Ontario's conservation goals are among the most ambitious in North America. The province has set a target to reduce peak demand by 6,300 megawatts by 2025. This long-term target includes more immediate targets for demand reductions of 1,350 megawatts by the end of 2007 and another 1,350 megawatts by 2010.

The long-term strategy to achieve Ontario's conservation goals is set out in the IPSP. Many of the same tools that are used to procure electricity supply are used to procure conservation, including contracting with consumers to reduce their electricity use during times of peak demand and contracting with agents such as local distribution companies to deliver conservation programs.

There are three main elements to the long-term conservation strategy: procuring conservation resources to meet the 2007 and 2010 megawatt savings targets, building and enhancing capabilities in the conservation services sector and encouraging a culture of conservation among electricity consumers.

The OPA procures conservation resources through programs that deliver energy savings and demand reduction using tools as diverse as product rebates, building retrofits and appliance-recycling initiatives.

Building the capabilities of the conservation services sector involves developing the skills and experience of companies and organizations to design and deliver conservation programs as well as informing consumers about ways to manage their electricity use.

Part of the long-term objective is to effect a substantial and sustainable increase in the market share enjoyed by energy-efficient products, technologies and processes. Structural changes in the market, such as improvements in relevant codes and standards and the introduction of price-based incentives, will contribute to this market transformation. In the medium to long term, the OPA expects there will be less need for its direct involvement in delivering conservation programs as the marketplace transforms and a culture of conservation develops.

2007 Conservation Activities

In 2007, the OPA built on the progress that began in 2006. A total of 16 conservation programs were launched, and three additional programs were in the final development stages at the end of the year. These programs touched all types of consumers. Three of these were province-wide programs—Summer Savings, the Great Refrigerator Roundup and ***peaksaver***®—delivered by 77 local distribution companies to 99 percent of Ontarians. The OPA also began to research, plan and develop new programs for launch in 2008, which will bring the total number of active programs in the conservation portfolio to 26 by the end of 2008.

® *Registered trademark of Toronto Hydro Corporation. Used under license.*

2007 in Review continued

Also during the year, an evaluation, measurement and verification (EM&V) system was developed to provide more accurate assessments of conservation program results. Best-practice experience in other jurisdictions was researched to help develop a system that will better track the OPA's progress in meeting Ontario's conservation targets, enhance the quality of data for forecasting and verifying conservation potential, and inform new and existing program design and development. The goal is to provide program and policy designers and analysts, as well as the electricity customers of Ontario, with meaningful information on conservation program performance. The first results from the new EM&V system will be available in the spring of 2008.

The fall 2007 Every Kilowatt Counts coupon booklet.

The year 2007 also marked the launch of the Every Kilowatt Counts brand and website, designed to promote participation in conservation programs, raise awareness of the importance of conserving electricity within both consumer and business markets, and influence consumer behaviour toward the wiser use of electricity. Visit www.everykilowattcounts.com for more detailed information on all of the OPA's conservation programs.

Market research conducted during the year indicated that the OPA's conservation programs have been effective in raising awareness and engaging consumer participation. Results of this research showed that more than 80 percent of Ontarians said they were aware of the OPA's conservation programs and over 50 percent said they had participated in at least one program. More than 2.5 million coupons were redeemed for residential electricity-saving products through the Every Kilowatt Counts retail campaign that ran in the spring and fall.

The OPA also undertook market research to analyze existing consumer attitudes, behaviours and barriers to energy conservation. The research established baseline data that will be used in subsequent years to track changes in consumer attitudes and behaviours. The OPA will build on existing research to ensure that the programs delivered to Ontarians are appropriately targeted and use optimal messaging to influence behaviour.

While there is a need to aggressively implement conservation to achieve immediate results, sustained success in the longer term requires that there be investment today in developing the capability of a commercial conservation services sector. The OPA continued to work in 2007 toward building the capability of the energy-efficiency supply chain, which includes contractors, associations and a range of organizations and businesses that can deliver verifiable conservation.

Peter Love, Chief Energy Conservation Officer, presents a certificate of recognition to Mark Henderson, president and CEO of Barrie Hydro, for the utility's partnership with local merchants to promote energy efficiency through the ENERGY STAR® Awareness Program.

It was the first year that the OPA contracted with local distribution companies province-wide, providing them with funding to deliver conservation programs across Ontario. Extensive consultations and negotiations led to contractual relationships with 77 local distribution companies in time to launch the three province-wide summer campaigns. Some local distribution companies also continued to design and deliver their own OEB-approved conservation programs in 2007.

Other conservation partnerships established by the OPA in 2007 include those with Enbridge Gas Distribution Inc., the City of Toronto and ARCA Canada Inc., an organization that specializes in the pick-up and decommissioning of appliances in an environmentally responsible way.

In its efforts to help transform the market, in 2007 the OPA continued to work closely with colleagues in the Ministry of Energy to develop a plan for more aggressive codes and standards that establish the minimum acceptable level of efficiency for buildings, machinery, appliances and electronics. The IPSP projects that 40 percent of the 2025 reduction target of 6,300 megawatts will come from changes to codes and standards. To that end, OPA programs worked to increase the adoption rates of more energy-efficient equipment. The OPA also collaborated with trade associations, such as the Canadian Standards Association, provincial and federal governments and other industry organizations, including the Canadian Appliance Manufacturers' Association and the Consortium for Energy Efficiency, to develop new standards for energy-using equipment.

Building Momentum in Conservation

Ontario's conservation progress to date is encouraging. In the May 2007 supplement to his 2006 annual report to the Minister of Energy, the province's Chief Energy Conservation Officer reported that Ontario was well on its way to meeting the 2007 target of a 1,350 megawatt reduction in peak demand, having achieved estimated peak electricity savings of 1,080 megawatts by the end of 2006. In his 2007 annual report delivered in November, the Chief Energy Conservation Officer expressed confidence that Ontario would meet its 2007 conservation target but emphasized that there is much work yet to be accomplished. Final 2007 results will be included in a report to be issued by the Chief Energy Conservation Officer in May 2008.

The methodologies used by the Chief Energy Conservation Officer to report on Ontario's conservation results have been evolving. In his 2006 report, a "top-down" analysis was used to arrive at an estimate of peak-demand reduction. A year later, with specific conservation program results available for the first time, a "bottom-up" analysis was used, in which the results of each initiative were first established and then aggregated into an overall estimate of electricity

Market research conducted during the year indicated that the OPA's conservation programs have been effective in raising awareness and engaging consumer participation.

2007 in Review continued

savings. The OPA took this process of refinement one step further in 2007 and, as described on page 8, developed an EM&V system to provide more accurate assessments of conservation program results beginning in 2008.

In addition to his role of reporting on Ontario's conservation progress, the Chief Energy Conservation Officer is responsible for leadership in promoting a culture of conservation across Ontario. In 2007, he continued to engage in province-wide activities to raise awareness, educate, foster local leadership and publicly recognize those already taking action to conserve electricity.

The Chief Energy Conservation Officer met with community leaders, groups and individuals across Ontario throughout the year to inform them about the benefits of conservation and encourage them to take action. Additional awareness activities included a summer message radio program, a conservation leadership workshop and a monthly conservation radio show than ran for five months. A common theme in all his messages is to encourage people to think about electricity as a limited resource, believe they can make a difference and act to use less electricity at home, at work and at play.

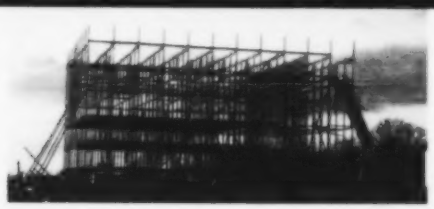
Supporting Conservation and Technology Development

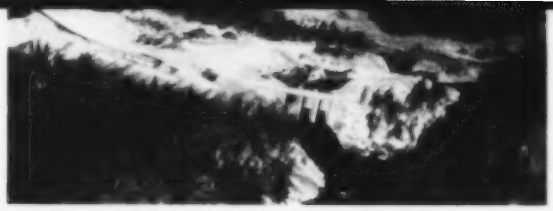
To help promote innovative technologies and approaches to electricity supply and demand across Ontario, the OPA has established two funds. The Conservation Fund supports the development of promising conservation pilot projects. In 2007, it provided $3.14 million in funding for 15 projects, valued at $8.2 million, targeting the forestry products, residential, healthcare and education sectors, to name a few. Every dollar of funding provided by the OPA leveraged an additional $1.92 in partner support. Further information on projects funded to date and selected case studies are detailed at www.powerauthority.on.ca/cfund.

The Technology Development Fund supports the development of pre-commercial technologies that have the potential to improve electricity supply or demand management options. In 2007, it supported 10 projects for a total of $650,789, which leveraged $4.8 million in external contributions. The range of technologies that were supported includes nano-technology-based solar photovoltaic applications, load management equipment, industrial process re-design for energy efficiency and a residential-scale combined heat and power system. Since it began in 2006, the fund has supported 20 projects, for a total of $1.2 million, leveraging $11.4 million in external

Ripley Wind Power Project

The OPA's Conservation Fund provided support to the Ontario Forestry Industries Association in 2006 and 2007 to help Ontario mills become more competitive through increased energy efficiency.





Left: Construction of the 577-megawatt St. Clair Energy Centre near Sarnia.

Right: The Umbata Falls hydroelectric project near Marathon in northern Ontario.

contributions. Further information on projects funded to date and selected case studies are detailed at www.powerauthority.on.ca/tdfund.

Milestone Reached in Electricity Supply

To meet projected electricity demand growth, replace coal-fired generation by 2014 and replace or refurbish nuclear facilities that will reach the end of their service lives over the next 20 years, Ontario needs not only to conserve at least 6,300 megawatts but also to develop about 24,000 megawatts of new generating capacity. This is equivalent to about 80 percent of the existing installed capacity in the province.

In pursuit of this objective, the OPA is responsible for facilitating necessary investment in the development of conservation and new generation where that investment might not otherwise occur.

Contract Management

In August, the OPA surpassed the 10,000-megawatt mark for new electricity supply under contract. These contracts are for all types of generation, including renewable energy, natural gas-fired generation, cogeneration and nuclear refurbishment, and represent more than $11 billion in new investment in Ontario's electricity system.

Included in the 10,000-megawatt milestone are 241 contracts for renewable energy projects of 10 megawatts or less that were signed in 2007 under the Renewable Energy Standard Offer Program (RESOP). These distributed generation projects have the potential to contribute more than 915 megawatts of electricity from wind, solar, biomass and hydro sources to Ontario's supply. Another 87 applications for contracts were being processed at year end.

The first program of its kind in North America, the RESOP encourages the development of electricity from small-scale generation by offering 20-year contracts with standardized pricing and simplified eligibility rules.

The OPA began developing a Clean Energy Standard Offer Program (CESOP) in 2007 to support clean energy generation projects of 10 megawatts or less. Development of the program included research into similar programs in other jurisdictions as well as extensive consultation with relevant stakeholders. Once implemented, the program is expected to contribute approximately 140 megawatts of generation capacity to Ontario's electricity system by the end of 2010. The CESOP program will be launched in 2008.

In 2007, the OPA amended its 2005 agreement with Bruce Power, increasing its contracted nuclear generation capacity to 3,000 megawatts. The $4.25-billion 2005 agreement was for the restart of units 1 and 2, complete refurbishment of unit 3 (reactor, steam generators and turbine-generator) and replacement of steam generators at unit 4 at Bruce A. The agreement was expanded in 2007 to include the full refurbishment of unit 4, extending its life to 2036 and bringing the total capital cost for all four units up to $5.25 billion.

The OPA also negotiated a revised scope for the contract with Rodan Energy Solutions to implement demand reduction projects in the Region of York. The expanded scope allows for a tenfold increase in demand reduction from three megawatts to 30 megawatts.

A number of the projects under contract made important progress during the year. Two facilities under the Renewable Energy Supply (RES) II contracts—Trail Road Landfill Generating Facility and Ripley Wind Power Project, totalling 81 megawatts—went into service in 2007. Construction began on four wind projects with a total capacity of 433 megawatts, the 570-megawatt natural gas-fired St. Clair Energy Centre, the 600-megawatt natural gas-fired Halton Hills facility and seven combined heat and power facilities across the province. Some of these facilities will be in service as early as 2008.

Left: Margaret Waldon, of the OPA's finance department, is responsible for banking and payroll.

Right: 500 megawatt steam turbine being installed at Greenfield Energy Centre, near Sarnia.

Contract management activities in 2007 also included administering payments aggregating to about $300 million required for 18 generation and demand reduction facilities that are now operational. These contracted facilities account for over 3,000 megawatts of capacity and 30 terawatt-hours of energy—which represents 20 percent of provincial demand.

Procurement of New Supply

Procurement activities for new electricity supply were also a key focus in 2007. In August, the OPA received spending authority from the government to procure up to 2,000 megawatts of additional renewable energy supply. To meet this target within the constraints of a tight global supply chain for generating equipment as well as a tight market for skilled trades and construction contractors, the OPA is planning a multi-phase procurement that will extend over the next several years. Implementation of the first 500-megawatt phase began with the November issue of a Request for Expressions of Interest, which will result in the first Request for Proposals being issued in the first half of 2008.

The initial procurement initiative for combined heat and power projects across Ontario, undertaken in 2006, resulted in contracts for 414 megawatts. The OPA issued a Request for Expressions of Interest in June 2007 for the balance of the 1,000 megawatts of combined heat and power projects that had been authorized. The objective was to determine interest in additional potential projects that may be viable or in active development. Based on the information received, the decision was made to proceed with a second combined heat and power procurement process. A draft Request for Proposals was released in late 2007. Execution of contracts is expected by late 2008.

The OPA also took steps to address the need for 350 megawatts of peaking natural gas-fired generation in northern York Region to be in service by late 2011. A communication and consultation process with local municipal stakeholders began in late 2007. A Request for Qualifications is expected to be released early in 2008, and a Request for Proposals should follow in mid-2008. As well, consultations were undertaken with stakeholders on the development of a contract for natural gas-fired peaking generation, resulting in a draft generic contract that was published in late 2007.

In August, the OPA received spending authority from the government to procure up to 2,000 megawatts of additional renewable energy supply.

Developing the Sector to Benefit Consumers

During 2007, the OPA continued to explore options for improving the commercial structure of the electricity sector to better serve Ontario's electricity consumers.

The purpose of these initiatives is to foster a commercial marketplace that will attract voluntary investment in Ontario's electricity system without requiring the assurance of an OPA contract. With more such commercial investment in the electricity system, the major part of the financial risk that electricity consumers currently bear for investment in new electricity conservation and supply sources will, over time, transfer to private developers, which are better equipped to manage risk.

A commercial marketplace will feature all of the major attributes that characterize other energy commodity markets: transparent pricing mechanisms, a robust forward price curve and opportunities to mitigate risk through the availability of a variety of hedging mechanisms.

A significant milestone in moving the sector forward was reached in 2007 with the first exchange-based trading of electricity forward contracts. In 2006, with the assistance of the Natural Gas Exchange Inc. (NGX), the OPA facilitated a series of forward auctions involving about $1 billion worth of future electricity products. The auctions allowed industrial and other large consumers in the wholesale electricity market to lock in their long-term costs, fostering market liquidity and forward price discovery. In 2007, Ontario electricity contracts moved onto the NGX trading screen and became available for continuous trading, rather than being tied to a schedule of periodic auctions. The NGX traded some $5.3 million in Ontario electricity contracts by the end of the year. As the traded volume of Ontario contracts increases, a more robust forward price curve will develop for Ontario electricity, which will eventually supplant OPA contracts in providing long-term pricing assurance to investors.

Directives issued by the Minister of Energy under section 25.32 of the *Electricity Act, 1998*, give the OPA legal authority to pass through to consumers the costs of contracts entered into under the directive.

Directives issued in 2007

June 14, 2007:

Clean Energy and Waterpower in Northern Ontario Standard Offer—to expand the Standard Offer Program initiative in the areas of clean energy supply and small, transmission-connected waterpower projects in northern Ontario; and to have these parts of the Standard Offer Program in place by the fall of 2007.

August 27, 2007:

To procure up to 2,000 megawatts of renewable energy supply from projects that are greater than 10 megawatts in size and to develop guidelines and processes to ensure that appropriate consultation with First Nations and Métis peoples takes place.

December 20, 2007:

Hydroelectric Energy Supply Agreements with Ontario Power Generation Inc. (OPG)—to assume the responsibility of negotiating with OPG a number of contracts respecting hydroelectric projects located at the following OPG hydroelectric station sites: Lac Seul, Upper Mattagami, Healey Falls, Lower Mattagami and Hound Chute.

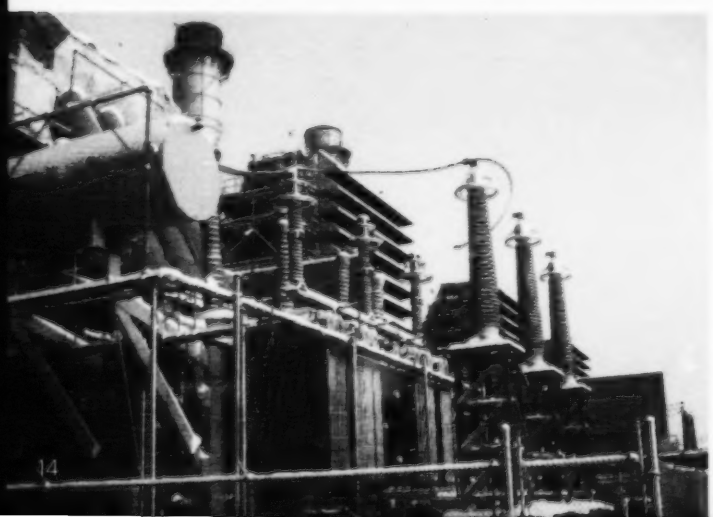
The OPA also worked with NGX to develop Ontario electricity product specifications as part of a new listing of the full range of NGX's North American natural gas and electricity contracts on the Intercontinental Exchange in January 2008. This listing will make Ontario electricity contracts accessible to a wider range of potential buyers and sellers.

2007 in Review continued

In addition, the OPA explored interest in the development of a new heat-rate contract for natural gas-based generation that could be traded on NGX. The contract would allow the two contracting parties to agree to a fixed price for converting natural gas into electricity. A pilot auction was undertaken in late 2007, in which two bilateral transactions took place. The OPA will meet with the pilot participants early in 2008 to discuss the results and next steps.

Another sector development activity in 2007 involved research and proof-of-concept analyses on the development of a customer entitlement agent (CEA) concept for Ontario. CEAs are independent entities that purchase electricity in the forward market on behalf of default electricity supply consumers and provide the benefit of fixed prices to them through their local distribution companies. Activities in 2007 that led to the development of the CEA initiative included: detailed analysis of the cost implications for Regulated Price Plan consumers through two proof-of-concept projects based on various implementation models and rate determination mechanisms; a comprehensive review of the roles, successes and problems with CEAs in nine North American jurisdictions where electricity is deregulated; and extensive consultations with the broad range of market participants that would be affected by a CEA implementation, including wholesale market participants, local distribution companies, consumer groups, retailers and government agencies. Discussion papers on CEAs were in development toward the end of 2007 and will be issued in early 2008 for industry feedback and further dialogue.

The OPA continued to work cooperatively with the Independent Electricity System Operator (IESO) by meeting regularly to discuss sector development initiatives. The main topic of these meetings was the potential development by the IESO of a day-ahead market, which would bring together two entities: the commercial electricity market that is based solely on bilateral contracts similar to those traded on NGX and that are financial in nature, and the operational system managed by the IESO, which is based on supply and demand. The OPA also participated in and provided information to the IESO's consultation sessions with stakeholders on a day-ahead market and its Market Pricing Working Group.



Top: Installation of lattice steel structures for interconnection of the Port Alma Wind Project, near Leamington, to the transmission system.

Bottom: Generator step up transformers at Goreway Station in Brampton.

Guy Raffaele leads the OPA's contract management group.

Consultation with Stakeholders a Major Priority

Consultation and communications with stakeholders and communities are key activities at the OPA. The goal is to enable all those who have a stake or interest in the OPA's initiatives to share information, experience and advice at an early stage. All of the feedback received is highly valued and given due consideration in the planning and design of the many initiatives and programs the OPA undertakes.

In 2007, the OPA conducted consultation and outreach activities across all areas of its mandate. Stakeholder engagement on the IPSP continued throughout the year. These activities included meetings with municipalities, transmission and distribution companies and regular, open webcasts and teleconferences. In addition, individual companies and organizations provided their data, knowledge and experience to the OPA toward its research in preparing the IPSP. For example, the Canadian Wind Energy Association facilitated the collection of operational data from existing wind farms for use in the evaluation of wind generation.

In the area of conservation, the OPA engaged stakeholders such as local distribution companies, industry and trade organizations, environmental groups and other industry players in consultations on the development of its conservation program portfolio, as well as on the design of specific programs and the development of a process to evaluate, measure and verify the results of conservation programs. Formal advisory groups were also established and met to provide feedback and counsel. These included the Conservation Business Stakeholder Advisory Group, which provided input on the design of the OPA's program portfolio, and the CEO's Conservation and Demand Management Advisory Committee, which shared its views on the OPA's conservation initiatives.

In the mandate area of supply, the OPA consulted with relevant stakeholders on its procurement activities, such as the 350-megawatt peaking natural gas-fired plant needed in northern York Region and the procurement of large renewable energy projects. Stakeholders were also consulted on the development of a contract for natural gas-fired peaking projects, as well as on the design of the CESOP.

As part of its sector development initiatives, the OPA consulted with market participants, government and government agencies through working groups and meetings to explore the concept of CEAs as a means of providing price stability for residential and other small-volume consumers.

Many available communication channels were used to build awareness of the OPA's purpose, activities, proposed plans and programs, including webcasts and teleconferences, website postings, workshops, traditional print and electronic media, advertising, OPA publications, face-to-face meetings with individual groups, the formation of special advisory groups such as the CEO's Customer Advisory Committee, and speeches by OPA executives. OPA executives made about 40 major speeches throughout the year to audiences that ranged from business leaders and government representatives to community, consumer and environmental organizations.

In all of its consultation and engagement activities throughout the year, the OPA worked to adhere to the guiding principles of relevance, inclusiveness, accessibility, transparency, meaningful contribution, and disciplined and fair management.

2007 in Review continued

Students from Kipling Collegiate Institute in Toronto ride pedal power bikes to illuminate light bulbs at the 2007 launch of the OPA's summer conservation programs.

Engagement with First Nations

A major focus of the OPA that continued throughout 2007 was outreach to First Nations and Métis communities across Ontario.

After initial meetings with senior First Nations and Métis leaders, the OPA invited 134 First Nations and 32 Métis community leaders to participate in two teleconferences, at which it presented an overview of the IPSP and outlined the communities' potential role in it. These were followed up with seven regional forums with First Nations and Métis communities. In 2008, the OPA will develop, with the participation of these communities, a long-term plan of engagement.

This engagement program was separate from but coordinated with the parallel activities of promoting conservation awareness and supporting conservation initiatives.

A Continued Focus on Progress Toward Ontario's Electricity Future

The third year of the OPA's operation has been the most significant in terms of making progress for Ontario's electricity future.

In 2007, the OPA delivered the IPSP to the OEB; launched 16 conservation programs and fostered important collaborative partnerships, including new agreements with 77 local distribution companies; exceeded the 10,000-megawatt mark for contracts for new electricity supply; and saw its forward auctions of 2006 result in the successful launch of continuous trading of electricity contracts on the NGX.

The OPA's progress to date is encouraging, but much more must still be accomplished. In 2008, the OPA will focus on the following major activities:

- stepping up conservation-related activities toward meeting the 2010 target reduction of 1,350 megawatts in peak electricity demand. A portfolio of 26 conservation and demand management programs will be implemented (up from 16 programs in 2007), with expected savings of 410 megawatts in electricity demand by the end of the year.
- increasing efforts to coordinate the work of all organizations engaged in conservation activities across the province to maximize the effectiveness and impact of these efforts and eliminate any duplication or overlap.
- introducing and implementing a system to accurately evaluate, measure and verify conservation program data and results.
- becoming a proponent in the regulatory review of the IPSP, which includes dedicating OPA resources for legal representation and as expert witnesses, responding to information requests and paying cost awards to some of the stakeholders participating in the proceedings.
- procuring new electricity supply for high priority areas of the province where there is a critical need to ensure reliability, particularly in northern York region, the Greater Toronto Area and southern Ontario.
- procuring additional large-scale renewable energy resources toward meeting the target of another 2,000 megawatts.
- improving the RESOP as experience builds from its ongoing operation and launching the CESOP. Options for the long-term management and administration of the standard offer programs will also be explored with the participation of relevant stakeholders.
- continuing to promote the development of a forward market for Ontario electricity products and working closely with the Independent Electricity System Operator in considering the development of a day-ahead market.

As in 2007 and each of the years before that, all activities in 2008 will continue to have at their core a focus on serving the interests of the electricity consumers of Ontario.

All activities in 2008 will continue to have at their core a focus on serving the interests of the electricity consumers of Ontario.

Management's Discussion & Analysis

The management's discussion and analysis reports on the results of operations and financial position of the Ontario Power Authority (OPA). The financial statements are prepared in Canadian dollars in accordance with accounting principles generally accepted in Canada. The following discussion is based upon the OPA's audited financial statements for the year ended December 31, 2007, and should be read in conjunction with these statements and the accompanying notes.

Results of Operations

Revenues

The OPA has three sources of revenues. Fees based on an approved Ontario Energy Board (OEB) rate for electrical energy withdrawn from the Independent Electricity System Operator (IESO)-controlled grid by Ontario electricity consumers, registration fees for OPA generation and conservation procurements, and interest earned on cash balances. The main revenue source is the rate derived from budgetary expectations approved by the OEB through regulatory proceedings. The revenues support the services and programs delivered by the OPA for the benefit of Ontario ratepayers.

The OPA's earned fees for 2007 were $55.5 million, slightly below the forecast of $57.2 million, due to lower domestic electricity consumption than forecast. Revenues increased in 2007 from 2006 levels by $24.8 million, climbing from $31.8 million to $56.6 million. The years 2006 and 2007 have both been years of high growth and development for the organization. The OPA earned no registration fees in 2007—postponed generation procurements and a waiver on conservation registration fees eliminated this revenue stream in 2007.

Interest income is realized from short-term investments, bank interest and other interest earned from operations. In 2007, interest earnings increased as higher cash balances were required to manage the volatility in operations funding. As operations mature and stabilize, the predictability of cash requirements is expected to improve, and interest income from cash balances will decline going forward. Interest earned from cash balances in 2007 amounted to $789,000. The OPA also received one-time interest income of $365,000 from the resolution of an outstanding claim for GST during 2007.

Cost of Operations

	2007	2006	Change	% Change
Compensation and benefits	$19,193	$13,678	$5,515	40.32
Professional and consulting fees	14,331	11,249	3,082	27.40
Conservation/Technology Development Funds (note 12)	2,187	1,053	1,134	107.74
General operating costs (note 7)	5,530	3,341	2,188	65.49
Amortization of capital assets	1,070	662	408	61.63
Total Expenses	**$42,310**	**$29,983**	**$12,327**	

Compensation and Benefits

The OPA is predominantly a knowledge-based organization. As a result, the primary cost of operations is driven by knowledge creation and employment of highly qualified professionals. The year-over-year increase of $5.5 million in compensation and benefits reflects the significant buildup of the organization throughout the year and its response to the urgent nature of the conservation mandate. Compensation and benefits costs include staff salaries, pensions and benefits, training and development, recruitment expenses, professional membership fees, and indemnification and liability costs.

Professional and Consulting Fees

Professional and consulting fees include costs related to audit, legal support, stakeholder consultation, external professional services and conservation awareness programs. The increase of $3.1 million over 2006 reflects the increase in the number and scale of programs.

Auditing support increased in 2007 to assess internal controls, policies and procedures installed during 2006. Going forward, the OPA has retained the Ontario Ministry of Finance's internal audit team to carry out its internal auditing, and program verification and compliance, in addition to its auditing of the Regulated Price Plan (RPP). The increase in the level of auditing activity and audit sophistication provides additional oversight for an ever-increasing level of program activity.

Conservation program launches, program development, generation contract management and procurement activities all employ specific external legal expertise. The Integrated Power System Plan (IPSP), released during 2007, is currently the subject of an OEB regulatory review and proceeding. This proceeding carries with it significant incremental legal costs.

Other professional expertise is required in a variety of applications supporting OPA operations, such as information support to the IPSP; marketing support in conservation program design, launch and communication; evaluation, measurement and verification of conservation programs; in human resources, performance enhancement and recruiting information; and in contract management, verification of construction progress. Increases in the number of conservation programs raise the requirements for specific external expertise. They also increase the costs associated with their evaluation, measurement and verification.

Conservation and Technology Development Funds

The Conservation and Technology Development Funds assist the OPA in raising awareness of conservation and help to nurture and develop innovative ideas that can be replicated and deliver real reductions in electricity consumption or demand. Funds have been created for each year starting in 2005. Grant awards are made throughout each year, and the projects are funded as progress is made against the project plan. The duration of some of the projects results in expenses incurred several years after the grant award. In 2007, the OPA incurred expenditures against the grant awards of $2.1 million for projects in operation, some of which began in 2005.

Since the inception of the Conservation Fund, 52 projects have been awarded a total of $5.6 million. The 52 projects have leveraged over $10 million in external contributions. The sector split of projects to date is: residential – 17 percent, agricultural – five percent, institutional – 40 percent, industrial – 20 percent and commercial – 18 percent. The Technology Development Fund has provided $1.2 million to 20 projects since its inception. These projects have leveraged $11.4 million in external contributions. The project funds are relatively evenly split by technology type: self-generation/co-generation – 21 percent, generation – 36 percent, energy efficiency – 21 percent and conservation – 21 percent.

General Operating Costs

General operating costs are the indirect costs associated with delivering on the OPA mandate. They include such items as conference fees, meeting costs, travel, communications, publications, office facilities and information systems costs. The increase of $2.2 million over 2006 spending is directly correlated to the increases in program activity. Communications, marketing and media costs in support of OPA conservation and other programs accounted for much of the increase, and the increase in office space and associated costs to house the additional staff make up the balance.

Management's Discussion & Analysis continued

Amortization of Capital Assets

Assets are primarily comprised of furniture and fixtures, computers, related hardware and software, telephones and audio-visual equipment. Increases in amortization costs are directly related to the increases in personnel and the required increase in space and equipment. The assets are amortized on a straight-line basis over their expected useful life.

Regulatory Assets and Liabilities

A change in accounting classification was implemented for 2007 that is designed to simplify and separately identify operating expenses from the regulated deferral and holding accounts maintained and reported on by the OPA. The activities and balances contained in the RPP accounts, the retailer settlement deferral accounts and the government procurement accounts were combined on the OPA balance sheet as "regulatory assets and regulatory liabilities." Aggregating these accounts assists readers of the financial statements to separate OPA costs related to its ongoing operation and its responsibilities related to the RPP, retailer settlement accounts and the government procurement deferral account. The 2006 comparative figures have been reclassified to conform with the presentation adopted in the current year.

Regulated Price Plan

The responsibility to manage and record the changes in the RPP variance is a legislated requirement of the OPA. The OPA maintains a line of credit with the Ontario Financing Authority to fund these obligations as they arise. Due to price changes for the RPP and electricity market conditions, the $77 million regulatory asset in 2006 has become a $146 million regulatory liability at December 31, 2007.

Retailer Settlement Deferral Accounts

The OPA has a legislated responsibility to fund and track the assets and liabilities that arise due to retailer contractual obligations that existed prior to electricity prices being frozen effective November 11, 2002. The balances are recorded on an annual basis; therefore, the OPA has 2005, 2006 and 2007 retailer contract settlement deferral accounts. Additionally, the retailer contract discount settlement deferral account holds and tracks the balance associated with the customer discounts invalidated when electricity prices were frozen. The 2005 and 2006 account principal does not change except for interest earned or expensed in relation to the balance. The OPA will open a 2008 retailer settlement deferral account to hold and track any balances created in 2008. Consequently, the 2007 deferral account balance will adjust only for interest in 2008 and beyond. The 2007 deferral accounts increased the balance receivable from the electricity market by $29.9 million plus interest on outstanding 2005 and 2006 balances of $714,000. This increased the amount to be settled to the electricity market by the OPA from $11.5 million in 2006 to $42.1 million at the end of 2007.

Further increases or decreases in the balance are dependent on the relationship between the hourly Ontario energy price (HOEP) and the retailer contract prices. When the HOEP is higher than the retailer contract prices, the amount to be settled to the electricity market by the OPA will reduce. When the HOEP is lower than the retailer contract prices, the amount to be settled to the electricity market by the OPA will increase.

Government Deferral Account

Expenses incurred by the provincial government related to electricity generation procurements are transferred to the OPA. In its 2007 revenue requirement submission to the OEB, the OPA asked for and received a government procurement deferral account to accumulate the balance of the expenses related to

government procurements. The balances in the deferral account will be held and a settlement of these balances will be proposed at a future time. In 2006, the balance in the account was $1.034 million. In 2007, the OPA received net transfers of $241,000, bringing the balance to $1.276 million.

Global Adjustment Account

The global adjustment account records the cash flows related to procurement contracts held, managed or under the responsibility of the OPA. This includes the contracts associated with the standard offer program, generation procurement contracts and conservation. The account is settled monthly; however, the settlement process for the OPA contracts requires an estimate of the balance owing. The variance between the actual estimates is adjusted in the following month's settlement. A variance existed at December 31, 2007 of $1.1 million and was re-classified as a receivable for reporting purposes. As a result, at December 31, 2007, the global adjustment account had a zero balance.

Excess of Revenues over Expenses

Excess revenues over expenses forecasted for 2007 were $13.4 million. This excess resulted mainly from lower than forecasted expenditures due to changes in operating expectations and deferred activity.

The change in accounting treatment for the expenditures related to the Conservation and Technology Development Funds lowered current year expenses by $1.8 million from forecast.

The lag in developing conservation programs resulted in lower legal and consulting expenses of $5.1 million versus forecast, and deferred conservation awareness programs lowered expenses by a further $2.0 million. These were offset by slightly higher expenses in program and office communications, resulting in a net reduction of $6.6 million in conservation effort expenditures against the forecast.

The delay in the IPSP hearing process lowered related legal and administrative expenditures by $2.0 million versus forecast. Postponements in electricity resource procurements due to transmission and other negotiations reduced related procurement expenditures by $1.8 million versus forecast.

The OPA usage rate included $3.2 million in contingency expense that was not required, which resulted in an additional favourable expenditure variance against forecast. The total expenditure variance of $15.1 million was offset by lower revenue of $1.730 million. Lower than expected electricity volumes to Ontario customers contributed $1.552 million, loss of registration fees from postponed and waived procurements contributed $400,000, unbudgeted operating interest was $961,000, offset by bank interest earnings of $818,000 and GST refund interest of $365,000.

Net Assets

The OPA capital asset base is employee related. Growth in the organization results in office space, furniture and equipment-related expenses. Expenditures related to growth were $2.6 million net in 2007. The year 2008 will have expansion similar to 2007. Excess revenues over expenses increased net assets by $13.5 million, offset slightly by Conservation and Technology Development Fund spending of $2.2 million.

Liquidity and Cash Flows

Rating Agency	Rating	Rating Action	Trend
Dominion Bond Rating Service Inc. (DBRS)	AA (low)	Confirmed	Stable
Moody's Investors Service Inc. (Moody's)	Aa1	Confirmed	Stable

The OPA's financing requirements are mainly short term and are primarily used to fund the RPP and retailer settlement deferral account balances. The aggregate of the account balances fluctuates monthly and can move to either a credit or a debit position. The OPA has a $975 million line of credit with the Province of Ontario to fund the fluctuations. As at December 31, 2007, the line of credit is unused. The line of credit was renewed in 2006 for a three-year period from January 1, 2007 to December 31, 2010.

To support this line of credit and provide a measure of our credit worthiness to counterparties, the OPA engages the rating services of DBRS and Moody's. In 2007, both DBRS and Moody's confirmed their ratings on OPA's credit line. The DBRS confirmation was issued November 28, 2007 and Moody's confirmed its rating on December 14, 2007.

Cash Flow

Cash provided by operating activities for the year ended December 31, 2007 was $37.9 million, compared with negative $45.3 million for the prior year. The increase is primarily due to decreases in working capital, end of year accrual of the receivables from the electricity market and a small increase in revenues over expenses. Significant changes in the OPA's cash position resulted from the increase in regulatory liabilities and specifically the RPP variance account. The RPP variance account started the year as a $77.3 million use of cash and ended the year as a $145.5 million source of cash.

Related Party Transactions

Related party transactions consist primarily of revenues received from the IESO and payments to use the research, planning and information capabilities of the IESO, Ontario Power Generation and Hydro One. The primary counterparty for cash management is the Ontario Financing Authority.

In 2007, the OPA received operating fees based on the OEB-approved usage rate of $55 million versus $37.8 million in 2006. The increase reflects the budgeted increase in OPA activities for 2007. The OPA also procured planning services supporting the IPSP from the IESO for $580,000 in 2007 versus $439,000 in 2006. In 2006, the RPP variance account required OPA funding and interest paid to the Ontario Financing Authority of $16.8 million. In 2007, the RPP variance shifted from an OPA-funded balance to an electricity market-funded balance. As a result, the OPA paid $1.6 million of interest in the first half of 2007 and received interest earnings of $1.8 million in the second half of 2007. The OPA also funds the procurement activities of the Ministry of Energy (MOE), and in 2007 received expenses of $311,000 from the MOE.

Risk Management

Annually, the OPA reviews its enterprise-wide risk to identify the internal and external risks to the successful achievement of its mandate. This assessment is vital to ensure the OPA develops mitigating strategies and incorporates the required responses into daily operations. The annual plan is reviewed and approved by the Board of Directors and becomes input to the development of the annual business plan. Each key area of focus builds annual business objectives that incorporate mitigating responses to the risks affecting its function that are identified in the risk management plan. The business plan development results in performance objectives and activities being tied to strategic objectives and the mitigation of risk.

The OPA has engaged an outside service provider for internal audit services over the next three years. This program is designed to provide an independent review of risk management policies and the effectiveness of internal systems and procedures. The program will further enhance risk management while informing future policy development and programs to mitigate financial and operational risks inherent in the enterprise.

Legislative Entity

The OPA is a corporate entity established through legislative statute. Accordingly, the Ontario Legislative Assembly has the power to affect the activities of the OPA through passage of legislation. As a result, there is potential for inconsistencies to occur between planned and actual activities engaged in by the OPA.

Regulatory Risk

The OPA is subject to regulatory risks, including a review of its revenue requirement by the OEB. Revenues are required to execute the OPA business plan, and denial of portions of the service levels underpinning the revenue base could affect the OPA's ability to deliver on its mandate as prescribed by legislation and developed further in the IPSP, filed with the Ontario Energy Board on August 29, 2007.

The IPSP is the basis for future operating plans. The implementation of these plans is dependent on the timely regulatory review and approval of the IPSP. It is possible the regulatory review process could affect the timeliness of the plan, which could adversely affect delivery on the legislated mandate of the OPA.

Emerging Accounting Pronouncements

The OPA anticipates transitioning to International Financial Reporting Standards (IFRS). The Canadian Accounting Standards Board implementation plan for convergence calls for the first year of reporting under IFRS to be 2011. To ensure the deadline is met, the OPA will be developing plans in 2008-2009 for execution starting in 2010.

Financial Instruments

Effective January 1, 2007, the OPA adopted the Canadian Institute of Chartered Accountants' Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3865, *Hedges*; and Section 1530, *Comprehensive Income*. Adoption of these standards has not had a material impact on the financial statements of the OPA. Financial market requirements continually increase in complexity, and future business arrangements will be monitored to ensure compliance with the above accounting pronouncements.

Disclosure Controls and Internal Controls over Financial Reporting

Management has created a system of internal controls designed to provide reasonable assurance that assets are safeguarded and reliable information is available on a timely basis. In 2007, the OPA initiated formal reviews of its procurement policy, internal controls over contract management and a risk-based internal control review of the organization. The results of the reviews will inform the development of an internal control framework.

Implementation of the framework will commence in 2008 and conclude in 2009. The OPA will also require management certifications of internal controls and letters of representation on the reasonableness of financial information and compliance with the OPA code of conduct.

Forward-looking Statements and Information

This discussion and analysis contains forward-looking statements, including statements regarding the business and anticipated financial performance of the OPA. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

Executive Compensation Plan

Program Objectives

The OPA compensation program is an integrated program for all executive staff, designed to attract, retain and motivate the calibre of executives required to support the achievement of the OPA's statutory mandate, business objectives and corporate vision. Accordingly, the compensation philosophy and programs have been built on the following objectives:

- to focus executives on meeting the OPA's business objectives
- to attract qualified and talented executive staff needed to carry out the OPA's mandate
- to be able to retain valued executive staff
- to have the flexibility to reward results and demonstrated competencies
- to have compensation levels that are responsible and defensible to stakeholders.

The philosophy underlying these objectives is that total compensation for executive management should be sufficient, but not overly sufficient, to attract the skills and competencies necessary to carry out the OPA's mandate.

Program Governance

The OPA Board of Directors (the Board) establishes the compensation objectives for these programs. It delegates to the Human Resources Committee of the Board the responsibility to thoroughly review the compensation objectives, policies and programs and to make recommendations concerning them to the full Board for approval. The Board is composed of nine independent, external directors, appointed by the Minister of Energy, with broad experience in both industry and public sector organizations, plus the Chief Executive Officer (CEO). In carrying out their mandate, the Board members have access to management's perspectives as well as those of expert consultants in the compensation field, including experts at The Hay Group. These programs are reviewed at least annually in terms of business needs, program objectives and design, industry compensation trends, internal compensation relativities and external market relativities.

In addition to the formal governance and oversight structure in place for compensation matters, the OPA annually discloses compensation levels for staff earning above $100,000 as part of the public sector salary disclosure. For the OPA, a further level of public review and assurance is provided through a statutorily required annual fee review. Compensation matters, including management compensation and market relativities, are addressed during the OEB review. A broad range of small and large stakeholder groups, assisted by their legal and professional advisors, are represented in these public proceedings. The OPA is also responsive to various requests by the Ministry of Energy in relation to compensation enquiries, including the Agency Review Panel in 2007, which conducted an exhaustive review of senior management compensation for the various agencies in the Ontario electricity sector.

Program Description

The program includes fixed and variable compensation, core benefit plans and pension provisions.

For the fixed compensation plan, the Board establishes broad salary ranges for each level of executive, taking into account comparable market relativities. Within these bands, individuals are assessed as developmental, mature or expert in their position, relative to an established competency model. This model consists of behavioural competencies, such as planning, deciding, influencing/advising, motivating, implementing/controlling, public relations/developing relationships, appraising people, evaluating issues/ideas, working

with others and disciplining/handling disputes. The assessment is based on demonstrated competency. Each individual is assessed a corresponding fixed compensation level within the band.

To promote a results orientation in the executive team, the variable pay plan is significant within the total compensation of executives. The CEO's target for variable compensation for 2007 was at 15 percent of fixed compensation, and the target for vice-presidents was 15 percent of fixed compensation. The OPA Board annually establishes a robust set of performance objectives and expectations, which are evaluated at the end of each year. Decisions regarding the actual variable compensation amount awarded to each eligible individual are based upon individual performance against these criteria.

The group benefit plan provides a core level of health and dental benefits, life insurance, disability coverage and vacation.

A defined benefit pension plan provides two percent of earnings per year to a maximum of 35 years of service, or a maximum benefit of 70 percent of earnings. After age 65, this pension is reduced to reflect provisions from the Canada Pension Plan. Retirement income is provided through a registered pension plan and a supplemental employee retirement plan. Both the OPA and plan members contribute to the plan.

Performance Measures and Impact on Compensation

The OPA annually establishes corporate performance measures relating to its strategic priorities. As outlined above, the results achieved each year have an impact on each executive's variable pay. The following chart highlights each of the business priorities where objectives are established and provides a brief description of the OPA's strategies and goals.

Business Priority	Strategies and Goals
Planning	Plan for an adequate, reliable and sustainable system that addresses conservation, generation and transmission (IPSP).
Conservation	Contribute to the achievement of Ontario's conservation resource targets and to fostering a culture of conservation using market-based approaches.
Electricity Resources	Consistent with the IPSP, ensure that the province of Ontario has diverse electricity generation resources.
Sector Development	Define sector development goals and facilitate the efficient allocation of risk between customers and investors in conservation and generation.
Corporate Support	Maintain and develop organizational capacity to achieve the strategic objectives.

A five-point rating scale ranging from "achieved few, if any, objectives" to "consistently exceeds all objectives" is used to determine the results for both corporate and individual performance objectives and is used to calculate the associated variable pay amount.

Management's Discussion & Analysis continued

Other Considerations

Benchmark compensation data for similar positions in several jurisdictions across Canada are used when establishing the compensation program for the following year. In accordance with the Agency Review Panel's recommendations, the comparator organizations are a combination of private and public sector, the comparator data are weighted on a 50/50 private/public sector basis, and the mid-points of OPA salary ranges align to the 50th percentile of the comparator data.

Compensation decisions may at times be affected by market factors, such as the recruitment of an executive with specialized skills and competencies or addressing unique talents within the industry.

Executive Compensation Statement

The table below sets forth the annual compensation for the year ended December 31, 2007, and will eventually report compensation over a rolling three-year period, for the executive officers listed. The total cash compensation information provided in the Summary Executive Compensation Table differs from the information published under the *Public Sector Salary Disclosure Act (Ontario)* for the indicated period due to the inclusion of employer pension contributions and employer-paid benefits in the Public Sector Salary Disclosure information. Disclosures under the *Public Sector Salary Disclosure Act* are the amounts listed on T4 taxation forms for each year.

Summary Executive Compensation Table[1]

	Year	Salary	Performance Incentive	Total Cash Compensation	Amounts Reported Under Public Sector Salary Disclosure[2]
Jan Carr Chief Executive Officer	2007	$550,000	$74,250	$624,250	$653,158
Amir Shalaby Vice President, Power System Planning	2007	$350,000	$45,500	$395,500	$444,742[3]
Paul Shervill Vice President, Conservation and Sector Development	2007	$289,424	$38,981	$328,405	$345,731
Peter Love Chief Energy Conservation Officer	2007	$280,000	$25,200	$305,200	$321,939
Mary Ellen Richardson Vice President, Conservation Programs and External Relations	2007	$239,539	$23,400	$262,939	$276,951

Annual Lifetime Pension Benefits[4]

Highest Average Earnings[5]	10 years of Service	15 years of Service	20 years of Service	25 years of Service	30 years of Service	35 years of Service
$200,000	$37,194	$55,791	$74,388	$92,984	$111,581	$129,178
$300,000	$57,194	$85,791	$114,388	$142,984	$171,581	$199,178
$400,000	$77,194	$115,791	$154,388	$192,984	$231,581	$269,178
$500,000	$97,194	$145,791	$194,388	$242,984	$291,581	$339,178

1 For 2007, total pension contributions and taxable benefits were less than $50,000 for each of the above named executives.

2 Total T4 income, including taxable benefits.

3 Includes a payment in lieu of 2006 pension contribution.

4 a) Although the Ontario Power Authority has existed for less than three years, some of the above-named executives may have more than three years of accredited service due to reciprocal pension agreements with other organizations in the electricity sector.

b) Assumes a normal retirement age of 65 (including a reduction in benefits to account for receipt of Canada Pension Plan provisions).

5 Best 60 consecutive months of pensionable earnings.

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT

To the Board of Directors

We have audited the statement of financial position of the Ontario Power Authority as at December 31, 2007, and the statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 1, 2008

Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	$ 161,127,950	$ 40,289,599
Accounts receivable	52,675,531	102,725,702
Other current assets (note 4)	59,925	$ 1,225,120
Total Current Assets	**$ 213,863,406**	**$ 144,240,421**
Capital Assets (note 5)	5,035,626	$ 3,515,970
	$ 218,899,032	**$ 147,756,391**
Regulatory Assets (note 6)	43,328,960	$ 89,859,473
TOTAL ASSETS	**$ 262,227,992**	**$ 237,615,864**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 98,068,012	$ 91,974,748
Contract deposits (note 16)	1,295,511	1,306,800
Deferred rent inducement, net (note 8)	1,121,698	1,195,080
Revolving line of credit (note 11)	–	140,321,780
Total Current Liabilities	**$ 100,485,221**	**$ 234,798,408**
Regulatory Liabilities (note 6)	145,546,311	–
NET ASSETS		
Internally restricted Conservation and Technology Development Funds (note 12)	$ 4,282,080	$ 2,468,675
Invested in capital assets	5,035,626	3,515,970
Accumulated operating surplus	6,878,754	(3,167,189)
Total Net Assets	**$ 16,196,460**	**$ 2,817,456**
Commitments (note 8)		
TOTAL LIABILITIES & NET ASSETS	**$ 262,227,992**	**$ 237,615,864**

See accompanying notes to financial statements.

On behalf of the Board:

Chair

CEO

Statement of Operations

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
REVENUES		
Fees	$ 55,469,805	$ 30,944,308
Registration fees	–	395,889
Interest income	1,179,923	475,627
Total revenue	**$ 56,649,728**	**$ 31,815,824**
EXPENSES		
Compensation and benefits	$ 19,192,841	$ 13,677,813
Professional and consulting fees	14,331,479	11,249,413
Conservation/Technology Development Fund expenses (note 12)	2,186,595	1,052,575
General operating costs (note 7)	5,529,621	3,341,331
Amortization of capital assets	1,069,555	661,736
Total expenses	**$ 42,310,091**	**$ 29,982,868**
Income before interest, other (income) and expense	**$ 14,339,637**	**$ 1,832,956**
OTHER (INCOME) AND EXPENSE		
Loss on asset disposal	$ –	$ 40,895
Ministry of Energy (note 14)	–	(6,816,692)
Operating interest	960,633	–
Total other (income) and expense	**$ 960,633**	**$ (6,775,797)**
Excess revenues over expenses	**$ 13,379,004**	**$ 8,608,753**

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash Flows from Operating Activities		
Excess revenues over expenses	$ 13,379,004	$ 8,608,753
Adjustments for:		
Loss on asset disposal	–	40,895
Amortization of capital assets	1,069,555	661,736
Change in non-cash operating items (note 15)	23,435,189	(54,633,454)
	$ 37,883,748	**$ (45,322,070)**
Cash Inflows from Financing and Investing Activities		
(Repayments)/advances from Ontario Financing Authority	$ (106,533,010)	$ (497,252,946)
(Repayments)/advances from the Ministry of Energy	–	(6,816,692)
(Increase)/decrease in regulatory assets	46,530,513	654,421,389
Increase/(decrease) in regulatory liabilities	145,546,311	(72,827,345)
Purchase of capital assets	(2,589,211)	(823,836)
	$ 82,954,603	**$ 76,700,570**
Net Increase in cash and cash equivalents	**$ 120,838,351**	**$ 31,378,500**
Cash and cash equivalents, beginning of year	40,289,599	8,911,099
Cash and cash equivalents, end of year	**$ 161,127,950**	**$ 40,289,599**

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended December 31, 2007, with comparative figures for 2006

	Net Assets Invested in Capital Assets	Internally Restricted (see note 12)	Accumulated Operating Surplus	Total Net Assets 2007	Net Assets 2006
Balance, beginning of year	$ 3,515,970	$ 2,468,675	$ (3,167,189)	$ 2,817,456	$ (5,791,297)
Excess of revenues over expenses	(1,069,555)	–	14,448,559	13,379,004	8,608,753
Establishment of Fund					
Conservation Fund	–	3,000,000	(3,000,000)	–	–
Technology Development Fund	–	1,000,000	(1,000,000)	–	–
Conservation Fund expenditures	–	(1,946,302)	1,946,302	–	–
Technology Development Fund expenditures	–	(240,293)	240,293	–	–
Investment in Capital Assets (net)	2,589,211	–	(2,589,211)	–	–
Balance, end of year	**$ 5,035,626**	**$ 4,282,080**	**$ 6,878,754**	**$ 16,196,460**	**$ 2,817,456**

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2007, with comparative figures for 2006

1) Nature of Operations

The *Electricity Restructuring Act, 2004* (the Act), established the Ontario Power Authority (the OPA or the Authority) as a non-share corporation on December 9, 2004. In accordance with the Act, the OPA's main objectives are:

1) to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
2) to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario
3) to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
4) to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources
5) to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources
6) to engage in activities that facilitate load management
7) to engage in activities that promote electricity conservation and the efficient use of electricity
8) to assist the Ontario Energy Board by facilitating stability in rates for certain types of customers
9) to collect and provide to the public and the Ontario Energy Board information relating to medium and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The Authority's ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA's credit worthiness is provided by the following:

1) The ability of the OPA to meet its obligations is provided for in legislation.
2) The OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

Definitions:

OPA	Ontario Power Authority	**RFP**	Request for Proposal
RPP	Regulated Price Plan	**OEB**	Ontario Energy Board
IESO	Independent Electricity System Operator	**OPG**	Ontario Power Generation
NUG	Non Utility Generator	**LDC**	Local Distribution Company
OFA	Ontario Financing Authority	**HOEP**	Hourly Ontario Electricity Price

Notes to Financial Statements continued

2) Summary of Significant Accounting Policies

Basis of accounting:

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Revenue recognition:

Fees earned by the OPA are based upon OEB-approved rates for electrical energy withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the period in which it is collected.

Cash and cash equivalents:

Cash and cash equivalents is comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 120 days.

Capital assets:

Capital assets are recorded at cost. The capital cost of property and equipment is amortized on a straight-line basis over their estimated service lives, as follows:

Class of Asset:	Estimated Service Life
Furniture and equipment	10 years
Leasehold improvements	length of lease
Computer hardware and software	2.5 years
Audio-visual equipment	10 years
Telephone system	5 years

Change in accounting policy:

Effective January 1, 2007, the OPA adopted the Canadian Institute of Chartered Accountants' Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The Corporation has designated all of its instruments as held for trading, and carries them at fair value.

The impact of adopting this change is not material to these financial statements.

Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

3) Cash and Cash Equivalents

	2007	2006
Bank Accounts	$ (2,231,674)	$ 40,289,599
Short-term investments	163,359,624	–
Total	**$ 161,127,950**	**$ 40,289,599**

4) Other Current Assets

	2007	2006
Global adjustment recoverable	$ –	$ 1,086,978
Prepaids	59,925	138,142
Total	**$ 59,925**	**$ 1,225,120**
Government procurement costs	**1,275,959**	**1,034,970**

The OPA applied for and received approval to establish a deferral account for the government procurement costs in its 2007 Revenue Requirement Submission to the OEB. The OPA will propose a settlement of these costs with the settlement of the retailer contract settlement accounts. The use of the deferral account re-classifies the government procurement costs from expense to the balance sheet pending resolution of the method of disposition. In 2006, the government procurement cost was $1,034,970 and in 2007, the balance was $1,275,959. Refer to note 6 for more information on government procurement costs and to note 14 for information on the legislative authority related to the government procurement costs.

5) Capital Assets

	Cost	Accumulated Amortization	Net Book Value 2007	Net Book Value 2006
Furniture and equipment	$ 2,188,944	$ (331,775)	$ 1,857,169	$ 1,274,121
Leasehold improvements	2,789,752	(431,472)	2,358,280	1,393,411
Computer hardware and software	1,516,721	(987,261)	529,460	610,572
Audio-visual equipment	227,150	(37,095)	190,055	124,876
Telephone system	146,367	(45,705)	100,662	112,991
	$ 6,868,934	**$ (1,833,308)**	**$ 5,035,626**	**$ 3,515,970**

6) Regulatory Assets and Regulatory Liabilities

Regulatory assets, liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations there under and are reflected by the balances in the RPP, Retailer Contract Settlement deferral accounts, government deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2007	2006
Total Regulatory Assets	$ 43,328,960	$ 89,859,472
Total Regulatory Liabilities	**(145,546,311)**	–

RPP

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. When HOEP is greater than the RPP, the OPA pays the excess amount and records a regulatory asset as the electricity market funds paid are receivable from the market. When HOEP is less than the RPP, the OPA receives the difference and records a regulatory liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is any difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

Notes to Financial Statements continued

RPP Variance Accounts	2007	2006
Ontario Power Generation rebate contribution	$ (66,666,789)	$ 7,215,194
Total RPP variance before interest	(99,324,179)	47,385,584
Interest earned	20,444,657	22,740,560
Sub-total	**$ (145,546,311)**	**$ 77,341,338**

Retailer Contract Settlement Deferral Accounts

Legislative provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. The OPA and retailers settling any differences between the HOEP and the contract price for each contract achieve these provisions. When HOEP is greater than the contract price, the OPA receives payments from the retailers and records a regulatory liability. When HOEP is less than the contract price, the OPA pays the retailer and records a regulatory asset. The OPA tracks these variances in the Retail Contract Settlement Deferral accounts.

Many of the retailer contracts that were in effect on November 11, 2002 had terms of three to five years. As a result, the number of contracts and associated volumes will decline as these contracts expire.

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured are held in a separate deferral account for settlement concurrent with the retailer settlement deferral accounts.

Deferral Accounts	2007	2006
2005 retailer contract settlement account	$ (37,976,331)	$ (36,548,684)
2006 retailer contract settlement account	50,173,145	48,031,849
2007 retailer contract settlement account	34,548,026	–
Retailer contract discount settlement account	(4,691,839)	–
Sub-total	**$ 42,053,001**	**$ 11,483,164**

Government Procurement Deferral Account

The OPA reimburses the government for costs incurred for electricity procurement and records the costs as a regulatory asset. The OPA will propose settlement of the government procurement costs along with the retail contract settlement deferral accounts. Refer to note 14 for information on the legislative authority related to the government procurement costs.

	2007	2006
Government procurement costs	1,275,959	1,034,970

Global Adjustment Account

Global adjustments and settlements are charges that flow monthly through the OPA from the IESO. The global adjustment account balance is composed of the amounts paid and received for: Non-Utility Generation Contract Adjustment Balancing Amount (NUG), Regulated Nuclear Generation Balancing Amount (Nuclear), Regulated Hydro Electric Generation Balancing Amount (Hydro), Global Adjustment Balancing Amount (GA), OPA generation procurement contracts and Conservation Demand Management (CDM) contracts. These accounts settle simultaneously.

The NUG, Nuclear and Hydro balances are offset in the Global Adjustment account eliminating the necessity for a flow of funds between the IESO and the OPA. The OPA records the effect of the transactions to provide transparency.

The OPA estimates the payment for the generation procurement contracts, submits the estimate to the IESO and receives the funds creating a regulatory liability. Generally, in the same month, the OPA settles with the counter-party and records an offsetting regulatory asset. Differences that exist between the estimate and actual settlement amounts carry forward for inclusion in the following month's estimate provided to the IESO.

The OPA enters into conservation procurement contracts to reduce electricity consumption or improve the efficiency of electricity consumption. The payments made for contract execution accumulate as regulatory assets (receivable from the market). The OPA submits a request for payment from the electricity market (through the IESO) in the following month. Market payments received offset the accumulated regulatory assets.

Non-Utility Generation account is the Ontario Electricity Financial Corporation's claim for the difference between market payments for NUGs and NUG contract costs.

The Regulated Nuclear Generation account is the difference between the market payments for OPG's nuclear generation and the payments at the prescribed nuclear rate.

The Regulated Hydro Electric Generation account is the difference between the market payments for OPG's base-load hydroelectric generation (up to 1,900 MW) and the payments at the prescribed hydroelectric rate.

The Renewable Generation account is the value of the energy sold to the IESO-controlled grid by the OPA. In October 2006, the OPA became a Metered Market Participant (MMP) for the supply of renewable energy to Ontario. Renewable energy is defined by legislation as an energy source that is renewed by natural processes and includes wind, water, biomass, solar energy, geothermal or tidal force.

The Global Adjustment account is the total of the NUG, nuclear and hydro accounts above and settlement amounts for OPA procurement contracts.

Global Adjustment Accounts	**2007**	**2006**
Non-Utility Generation	$ 410,696,783	$ 400,150,050
Regulated Nuclear Generation	74,304,123	150,059,205
Regulated Hydro-Electric Generation	(250,222,119)	(225,963,441)
Renewable Generation	–	(10,739,939)
Global Adjustment	(234,778,787)	(313,505,875)
Sub-total	**$ –**	**$ –**

7) General Operating Costs

	2007	**2006**
General program costs	$ 2,708,886	$ 1,200,807
Information technology	207,694	159,152
Premise	1,954,172	1,274,575
Office and administration	658,869	706,797
Total	**$ 5,529,621**	**$ 3,341,331**

8) Commitments

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA initially obtained an allowance for leasehold improvements of $1,359,332. As at December 31, 2007, the deferred rent inducement, net of amortization, was $1,121,698.

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2007, the accrued rent liability was $278,937.

Notes to Financial Statements continued

The minimum annual payments under the operating lease are approximately as follows:

Commitments	
2008	$ 956,000
2009	1,001,000
2010	1,012,000
2011	1,078,000
2012	1,079,000
2013 and thereafter	3,015,000
Total	**$ 8,141,000**

All lease commitments are set to terminate coincidentally on October 14, 2015.

9) Related Party Transactions

The OPA considers the Government of the Province of Ontario, its Agencies and its Crown Corporations to be related parties. In the normal course of operations, the OPA has transactions with the following related parties:

a) Ontario Energy Board
b) Hydro One
c) Ontario Power Generation
d) Independent Electricity System Operator
e) Ontario Financing Authority
f) Ministry of Energy

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Ontario Energy Board	$ –	$ 8,593	$ –	$ 800
Hydro One	–	–	–	–
Ontario Power Generation	–	42,114	–	30,795
Independent Electricity System Operator	55,469,805	580,359	37,761,000	439,000
Ontario Financing Authority	1,840,408	1,627,927	–	16,771,487
Ministry of Energy	–	310,989	–	1,034,970
	$ 57,310,213	**$ 2,569,981**	**$ 37,761,000**	**$ 18,277,052**

In the 2007 revenue requirement submission to the OEB, the OPA requested and received an OEB decision to carry the costs related to the government procurements ($1,034,970) in a deferral account to settle coincidentally with the retail contract settlement deferral accounts.

The revenues and expenses with the Ontario Financing Authority relate to interest earnings and expenses allocated to the RPP, retail contract settlement deferral accounts and OPA operations.

10) Pension Plan

The OPA makes contributions to Ontario Pension Board, a multi-employer plan, on behalf of all staff. The plan is a contributory defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As a result, the OPA paid or accrued contributions totaling $945,782 during the year.

11) Revolving Line of Credit, Outstanding Promissory Notes

The OPA has available a revolving operating facility in the amount of $975 million, provided to it by the Ontario Financing Authority.

	2007	2006
Operating loan	$ –	$ 33,788,770
RPP and Retailer loan	–	106,533,010
Revolving line of credit	**$ –**	**$ 140,321,780**

12) Internally Restricted Funds

The Ontario Power Authority established the Conservation Fund to assist electricity conservation projects. To date, five funds have been set up as depicted in the table below. The 2005 Conservation Fund is fully awarded and payments will be made as the projects meet their milestones. As at December 31, 2007, $1,332,270 has been granted for the 2006 Conservation Fund, $3,146,681 for the 2007 Conservation Fund and $584,562 and $650,789 for the 2006 and 2007 Technology Development Funds respectively.

	Restricted Fund	Expensed 2007	Expensed Prior Year	Balance 2007
2005 Conservation Fund	$ 1,100,000	$ 46,356	$ 800,346	$ 253,298
2006 Conservation Fund	1,500,000	1,083,164	329,979	86,857
2007 Conservation Fund	3,000,000	816,782	–	2,183,218
2006 Technology Development Fund	1,000,000	216,293	1,000	782,707
2007 Technology Development Fund	1,000,000	24,000	–	976,000
	$ 7,600,000	**$ 2,186,595**	**$ 1,131,325**	**$ 4,282,080**

Notes to Financial Statements continued

13) Fair Value of Financial Assets and Financial Liabilities

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The fair values of the Regulated Price Plan variance, operating loan, revolving loan—Regulated Price Plan and retailer settlement balance are not provided because it would not provide additional useful information as they would be offset and/or would not be practical to determine.

14) RFP Costs Transferred to the OPA

Under section 25.18 of the *Electricity Act, 1998*, the OPA is required to reimburse the Crown or, if so directed by the Minister of Finance, an agency of the Crown for certain costs incurred by the Crown or an agency of the Crown after January 20, 2004, and before the Ontario Energy Board's first approval of the OPA's procurement process under subsection 25.31(4) of the *Electricity Act, 1998*. These costs include costs incurred related to the OPA, a contract to procure supply, capacity or conservation, an initiative that was commenced by the Crown that the OPA has been required to assume under a Minister's directive or a matter within the objects of the OPA.

For additional information, please refer to note 4 and note 6.

15) Change in Non-Cash Operating Items

	2007	2006
(Increase)/decrease in accounts receivable	$ 50,050,171	$ (102,495,301)
(Increase)/decrease in other current assets	1,165,195	646,854
Increase/(decrease) in accounts payable	6,093,264	20,602,247
Increase/(decrease) in deferred rent inducement	(73,382)	(135,933)
Increase/(decrease) in operating loan	(33,788,770)	26,780,768
Increase/(decrease) in contract deposits	(11,289)	(32,089)
	$ 23,435,189	**$ (54,633,454)**

16) Contract Deposits

Deposit amounts received from Renewable Energy Supply (RES) contractors. The deposit amounts are larger during the construction phase and are reduced once the project commences commercial operations. The deposits are classified as current liabilities as the projects are expected to enter commercial operations in 2007.

17) Contingent Liabilities and Guarantees

Contingent liabilities: In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2007 in the opinion of management, no such liabilities exist.

Guarantees: The OPA is contingently liable under a loan guarantee provision in a contract with a maximum potential exposure of $8.6 million. The outstanding loan balance under this contract which the OPA has guaranteed is $371,126 as at December 31, 2007 and is not presently in default. The contract related to this guarantee expires in May 2012.

18) Comparative Figures

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

Corporate Information

Board of Directors

John M. Beck, Chair
Chairman and Chief Executive Officer, Aecon Group Inc.

Charles Bayless, Director
Provost, West Virginia University Institute of Technology

Michael Costello, Director and Chair, Audit Committee
Retired from BC Hydro and BC Transmission Corporation (President and CEO); Director, InTransit BC and Vancouver Island Health Authority; and Lecturer, University of Victoria School of Public Administration

Frank J. Ewasyshyn, Director
Executive Vice President – Manufacturing, Chrysler LLC

Richard P. Fitzgerald, Director
Chairman, Diageo Canada Inc.

Adèle M. Hurley, Director
President, Hurley & Associates Inc.

Ronald L. Jamieson, Director and Chair, Human Resources Committee
Retired from BMO Financial Group, where he was Senior Vice-President, Aboriginal Banking; Director, Nuclear Waste Management Organization and Denendeh Investments Inc.; Chairman, Canadian Council for Aboriginal Business

Lyn McLeod, Director and Vice Chair
Chancellor of the University of Ontario Institute of Technology, Ontario representative on the Health Council of Canada and serves on the Ontario Health Quality Council

Tim O'Neill, Director*
President, O'Neill Strategic Economics and Partner in TNET Management Consultants

Jan Carr, Director
Chief Executive Officer, Ontario Power Authority

Corporate Officers

John M. Beck, Chair

Jan Carr, Chief Executive Officer

JoAnne Butler, Vice President, Electricity Resources

Peter Love, Chief Energy Conservation Officer

Michael Lyle, General Counsel and Vice President, Legal and External Affairs

Kimberly Marshall, Vice President, Finance and Administration

Amir Shalaby, Vice President, Power System Planning

Paul Shervill, Vice President, Conservation and Sector Development

John Zych, Corporate Secretary

Corporate Information

For more information on the Board of Directors, including the Board Charter and Code of Conduct, Governance and Structure By-law, and Board committees, please visit the OPA website, www.powerauthority.on.ca and select About OPA; Management, Mandate and Organization; Board of Directors.

** Resigned from Board effective March 6, 2008*

Corporate Contact Information

Ontario Power Authority
120 Adelaide Street West
Suite 1600
Toronto, Ontario M5H 1T1
Phone: (416) 967-7474
Fax: (416) 967-1947
Web: www.powerauthority.on.ca

La version française de ce rapport est affichée sur le site de l'OPA: www.powerauthority.on.ca

The OPA wordmark and the phrase "Ontario Power Authority" are Official Marks owned by the Ontario Power Authority.

Waterless Printing Process

FSC Recycled
Supporting responsible use of forest resources
www.fsc.org Cert no. SW-COC-000677
© 1996 Forest Stewardship Council